



2011

Annual Report



DEFENCE FORCE
RETIREMENT BENEFIT FUND



Contents

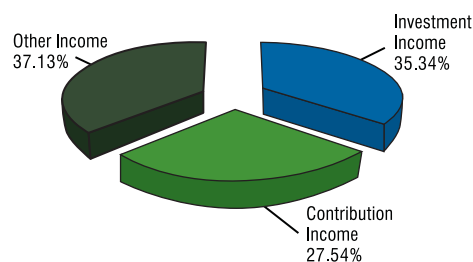
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2011 Highlights

Summary of Key Results

	2011 K	2010 K
Net surplus (after tax)	10,047,412	20,799,530
Total Fund net assets	362,560,352	347,992,970
Total benefits paid	9,212,359	7,763,584
Interest Crediting Rate	4%	9.8%
CPI indexation rate	0%	4%
MER	1.71%	1.96%

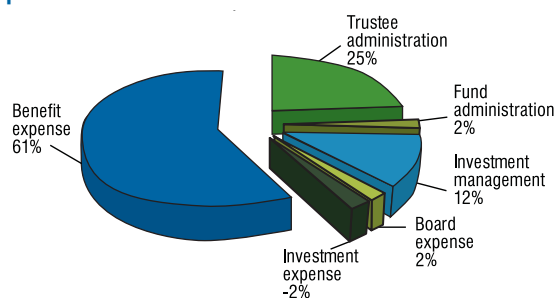
Income Summary



2011 Income Summary

	K
Investment Income	10,053,644
Contribution	
- Members	2,702,470
- State	5,132,020
Other Income	10,562,430
Total	28,450,564

Expenditure



2011 Expenditure

	K
Trustee Administration	3,782,901
Fund Administration	292,856
Investment Management Fee	1,857,867
Board expense	313,816
Investment expense	(348,727)
Management expense	5,898,713
Benefit expense	9,212,359
Total Expenditures	15,111,072

Chairman's Statement



Dear Members,

It gives me great pleasure once again to report to you the results of the Fund's operation for 2011 which are summarised below.

Operational Summary:

The Fund performed reasonably well during the year, having come out relatively unscathed from the adverse effects of the global financial crisis (GFC), and commenced the long road to recovery boosted by the start of construction work on major infrastructure associated with the LNG project which is scheduled for completion in 2013.

The Board is committed to its primary responsibility of growing the Fund through prudent investments, while at the same ensuring fulfillment of its obligation to honour benefit payments to members in an efficient and timely manner as and when they become due. Adherence to our core corporate values of good governance, transparency/open communication and accountability led to the realisation of the following financial results for the year, which are summarised below:-

	2011 K	2010 K
Net surplus	10,047,412	20,799,530
Net Fund assets	362,560,352	347,992,970
MER	1.71%	1.96%
Rate of return¹	4%	9.80%

Economic Outlook:

The domestic economy is forecast to continue to experience strong growth spurred on by the LNG project, now in advanced construction stage, and other mining projects expected to come on stream over the next few years. Internationally, however, the outlook is mixed, with developed economies pitted on one side suffering from man-made as well as natural disasters, while on the other hand emerging economies in Asia, notably India and China and to a lesser extent Latin America have defied the economic crisis and are growing expotentially. This is spurred on by their demand for a wide range of resources which PNG is well placed to supply. This presents great business opportunities for the country and your Board will continue to explore these with the view to enter into investment ventures which will be beneficial to the Fund and ultimately the members.

Investments:

In order to position the Fund to take advantage of such business and investment opportunities and to accommodate future growth, the Board recently acquired two parcels of prime land in Port Moresby. The one located at Ela Makana

Street, Port Moresby will be developed into 30 upmarket residential apartments to cater for the influx of expatriates entering the country for work, while the other one adjacent to the MVIL head office in Hohola will be used to construct a four-storey building which will house the permanent head office for the Fund. One floor will house the Fund head office while surplus space will be leased at market rentals to corporate tenants. Planning and concept designs have begun with construction planned for commencement late 2012.

Board will continue to identify and invest in blue-chip companies both domestically and internationally (especially those listed on the Australian Stock Exchange [ASX]) as and when opportunities present themselves after the required due diligence has been undertaken. This is necessary to ensure Fund growth and profitability through application of a diligent investment strategy that allows adequate diversification and rebalancing of the Fund's investment portfolio.

The Board is aware of and monitoring both local and global events that may potentially affect regional and domestic economies and ultimately the Fund's profitability. The Board will continue to exercise prudence and good judgment in the management of the Fund to ensure its further growth and preservation to fulfill its purpose of funding the members' pension entitlements now and in the year ahead.

On the local front, the Exxon/Mobil led-LNG project appears to be progressing on schedule despite disruptions caused by landowner disputes, however, all indications are that work will be finalised on schedule to enable the first shipment by 2014. The Board is positioning the Fund to take advantage of flow-on business opportunities.

Pension Benefits:

The Board has awarded 2011 interim CPI indexation of 4% which was paid in early January 2011 and subject to actuarial investigation and recommendation may authorise further indexation latter this year.

In addition, the Board has also requested the actuary to investigate and report on various improvements to benefits payable to pensioners for Board consideration and approval. Specific areas for review relate to:-

- improvement to widow and child benefits
- one-off pension adjustment to compensate for loss of buying power of pensions paid for pensioners exiting the PNG Defence Force prior to 1990 on an incremental scale.

¹ As DFRBF is a defined benefits fund application of the formula to compute Rate of Return (RoR) as provided in PS 2/2008 is not relevant, therefore approval obtained from BPNG to use adjusted formula.

The actuary has also been requested to investigate and advise the Board of the financial implication to the Fund of members choosing to migrate to an accumulation scheme and financial viability of sustaining pension liability of members choosing to remain in the current scheme. The Board will request for a more comprehensive investigation on all benefits provided under current legislation and further review and advice potential improvements which the Board will consider for implementation in future, if such improvements are consistent with present legislation.

Risk Management:

Risk management is an inherent and ongoing part of the Board's duty, which is made much more essential by the rapidly changing economic and business environment in which we operate. Emerging global events that have the potential to significantly affect global investments and consequently Fund performance and the risks and/or opportunities that they present are being watched very closely. Among the many issues the most significant are:

- growing concerns over the deepening US government budget deficit and the likely consequences of a recession if not urgently and satisfactorily addressed and its consequential shockwaves disbursing globally.
- European financial bailouts for Greece, Portugal and Ireland which may escalate to more serious problems,
- Natural disasters that have caused substantial damage recently to infrastructure and industries in New Zealand, Australia and Japan – our major trading partners as well as aid donors and the resultant consequences.
- Geo-political instability in the Middle East resulting from popular uprising against the ruling regimes and their effect on oil supply which is the main driver of commerce and industries worldwide.

I reported in the 2010 Annual Report that the Board would undertake a comprehensive review of all material risks facing the Fund's operations and develop strategies to manage such risks and reduce consequences to acceptable levels. I am happy to report that in furtherance of this objective the Board developed a detailed Risk Management Strategy (RSM), in conjunction with a Business Continuity Plan (BCP) and a Management Succession Plan. These documents are aimed at identifying and managing risks that can adversely affect the operations of the Fund and result in substantial losses suffered.

Moving Forward:

The organisational structure of the company was reviewed, including a revision of the company's Strategic Plan – 2011– 2015. This was considered necessary to reposition the company to better adapt to the rapidly changing economic landscape domestically, especially resulting from flow-on business on the back of the Exxon/Mobil led-LNG project and other mining activities now in advance stages of development and the changing expectation of members to be better positioned to take advantage of investment opportunities and better address and satisfy member needs.

In recognising the importance that risk management plays in the preservation and management of the Fund, the Board will be reviewing the risk management strategy again in 2012 to ensure that all material risks that can potentially have an adverse impact on Fund performance are identified and appropriate strategies developed to manage such risks and reduce consequences to acceptable limits.

The Board continues to monitor the Fund's exposure in the various investment classes/sectoral allocations to ensure firstly that they remain within approved limits and where adverse deviations occur to take action as may be required to rebalance the portfolio. This is in keeping with the Board's underlying duty to preserve and grow the Fund to fulfill its obligation to fund pension liability now and in the future. The Board noted that the Fund's share holding in BSP exceeded levels considered prudent therefore commenced selling-down sharers held in this company during the year, and will continue to do so until such exposure is brought to an acceptable level in due course.

Conclusion:

In conclusion, I would like to take this opportunity to thank my fellow Directors, management, staff and all other persons or entities whose unfailing dedication, commitment, perseverance and hard work have contributed towards the realisation of another successful year for the Fund.



Chris Alu
Chairman

16th June 2011

Vision & Mission Statement

The vision of the company is:-

“To achieve excellence in meeting the needs of members through efficient management of the Fund.”

And the mission is to:-

“To continuously deliver services to meet the identified needs of our members and to prudently manage the Fund to ensure its value is enhanced.”

Corporate Values

The achievement of our mission statement requires all Directors and employees of CTSL and our core service providers to adhere to our corporate values. These values require CTSL to operate in accordance with the highest professional and ethical standards in all our relationships with members, suppliers, and the community in which we operate.

The values provide a platform for the company to nurture and promote a corporate climate which encourages innovation and diligence among staff and rewards them through:-

- Being responsible and accountable for our actions
- Operating with honesty and integrity
- Always putting the interest of our members first
- Being transparent in our dealings with all parties
- Training and developing our employees and providing them with the necessary resources to perform to their full potential and rewarding them fairly
- Aiming continually to improve our service and efficiency levels
- Treating each other with respect and consideration and encouraging team work and cooperation
- Pursuing an employment policy that is based on merit and does not discriminate on the basis of gender, race, religion or ethnic persuasion

Built on our corporate values of:-

- Honesty, integrity and mutual respect
 - Our pursuit of excellence
 - Transparency
 - Accountability



The Fund

The Defence Force Retirement Benefits Fund (DFRBF), as of 1st January 2003, is established pursuant to Section 8 of the Superannuation (General Provisions) Act 2000.

The primary objective of the Fund is to provide benefits to members of the Defence Force on retirement and to their families in the event of death and for related purposes.

DFRBF is a defined benefits fund. This means that benefits are usually determined by a formula provided in the enabling legislation and paid as a fortnightly pension, after allowing for commutation, for the remaining life of the member after retirement. In the event of the demise of the pensioner, 5/8 of the pension is paid to the widow until such time she remarries or dies. A defined benefits scheme operates in much the same way as a life insurance scheme where for a small fortnightly outlay of 6% of the member's salary the member purchases. Since members' benefits are determined by a formula, rather than reflecting what is in the members' individual accounts, the funds held in the Fund are kept as a single pool for members.

Members are required to compulsorily contribute 6% of their salary to the Fund. The employer or State share of pension contribution is not paid each fortnight as is the case with an accumulation fund. Instead the State assumes all residual pension liability after allowing for member contribution, investment income and expenses of administering the Fund.

Because of the uncertainties of the extent of residual liability assumed by the State, an actuarial evaluation is undertaken periodically. Prior to the Superannuation Act 2000 coming into effect, the actuarial evaluation of the Fund was undertaken after every three years, with the last one conducted for the three years ended on 31st December 2006. Commencing 1st January 2007 the actuarial evaluation of the Fund will be undertaken after every two years in compliance with prudential requirements to determine, among other things, the financial viability of the Fund and its ability to meet and sustain future pension payments to the members. The next actuarial evaluation will be undertaken for the period ending on 31st December 2010 in early 2012 (re-stated 2011) and details of which will be reported to members in the subsequent financial year.

Licensed Corporate Trustee

Comrade Trustee Services Limited (CTSL) has been approved by the Bank of Papua New Guinea (BPNG) as the licensed corporate trustee for the Fund. As the licensed trustee, it has ultimate legal responsibility for the prudent management of the fund, and subject to the requirements of the Superannuation Act and the governing rules of the Fund has the power, authority and the discretion generally to do all such acts as it considers necessary or expedient for the sound administration, maintenance, investment and preservation of the Fund.

The trustee company is administered under the direction of a Board of Directors comprising seven Directors, three (3) of whom are drawn from the members of the Fund and four independent Directors who collectively plan, oversee, and set corporate goals and determine the strategic direction of the Fund.

One of the two vacant positions on the Board was filled in November 11th 2011.

At the time of writing, the Board is in the process of finalizing the appointment of remaining vacancy.

Board of Trustees



**Chris Alu – Chairman
Independent Director**

Appointed to the Board of DFRBF (predecessor to Comrade Trustee Services Limited) as Chairman in June 2000 and served in that position until 31st December 2002, when the Board ceased to exist by operation of the Superannuation Act 2000. He was subsequently appointed to the Board upon the formation of CTSL as licensed corporate trustee to the Fund on 19th December 2002.

Mr Alu was re-elected as the Chairman of the Board.

Mr Alu has 24 years of extensive private and public sector experience and brings with him invaluable accounting experience to the Board.

Mr Alu graduated with a degree in accounting from the PNG University of Technology in 1981 and holds a Certificate in Commercial Audits from the Darling Downs Institute of Advanced Education, Queensland, Australia.

He resigned as Chairman of Unitech Development & Consultancy Limited – the business arm of the University of Technology and as a member of Council of the University of Technology in 2010. He is also President of Christian Leaders Training College of Papua New Guinea and President of the Fellowship of Companies for Christ International, PNG Chapter. He is also involved with many charity groups and considers this as his contribution towards the less fortunate in society.

Mr Alu is a member of the PNG Institute of Directors and was appointed pursuant to Clause 10 of the Company Constitution as an independent director.



**Colonel David L.Y. Takendu, OBE, BE (Civil),
psc (Aust), psc (Indon), jssc (Aust) (Rtd.)**

Appointed to the Board of DFRBF (predecessor to Comrade Trustee Services Limited) as Deputy Chairman in June 2000 and served in that position until 31st December 2002, when the Board ceased to exist by operation of the Superannuation Act 2000. He was subsequently appointed to the Board upon the formation of CTSL as the licensed corporate trustee to the Fund on 19th December 2002.

Col. Takendu joined the Australian Army, Papua New Guinea Command, in 1968 as an officer cadet and worked his way up to the rank of Colonel. He held the position of Chief of Staff at the time of retirement in December 2002. He represents pensioners on the Fund Board.

He previously served on the Post and Telecommunications Board from 1990 to 1993 and more recently served as Chairman of Banora Trading Limited.

Colonel Takendu graduated from the PNG University of Technology in 1978 with a degree in Civil Engineering. During the course of his employment with the Defence Force he has also attended military staff colleges in Australia, New Zealand, Indonesia and United States notably, the Australian Staff College, Queenscliffe, Victoria, in 1981; the Indonesian Military Staff College, Bandung, between 1986 and 1987; the JFK School of Government, Harvard University, Boston, Mass, USA in International Conflict Resolution Strategies, 2001 and Defence Resources Management Institute, at the US Naval Post Graduate School, Monterey, California, USA in 1991. He speaks Bahasa Indonesia fluently.

He is a member of the PNG Institute of Directors.



Captain Alois Ur Tom, DMS, OBE (Navy)

Appointed to the Board on 19th December 2002, Captain Ur Tom represents members of the fund on the Board.

Captain Ur Tom was appointed Chief of Staff in July 2002 and has occupied that position in the Defence Force to the present time. His primary role is to provide logistical and management support to the Commander of the PNG Defence Force.

Currently he is a member of the Defence Force Supplies and Tenders Board and Chairman of the Disciplined Forces Housing Committee.

Captain Ur Tom has had considerable hands-on experience in all facets of naval duties including attachments in the United States and Australian navies.

Captain Ur Tom is a graduate of the University of PNG with a Bachelor of Commerce (Accounting) degree, a graduate Diploma in Strategic Studies from the Joint Services Staff College in Canberra and a visiting Fellow to the Royal Australian Navy's Maritime Studies Program. He also holds a graduate Certificate in Business Administration and a Masters Degree from Deakin University in Melbourne and is a member of the PNG Institute of Directors.



Kisakiu Posman
Independent Director

Appointed to the Board on 4th June 2004 he was nominated by the PNG Law Society pursuant to Clause 10 of the Company Constitution.

Mr Posman graduated from the University of PNG in 1983 with a Bachelor of Law and also graduated with a Master of Law degree from the University of Ottawa, Canada in 1986.

Mr Posman has had a varied employment history, having commenced employment with Bougainville Copper Limited in 1974, then to teaching law at the University of PNG between 1983 and 1989 then to private practice. His stint in private practice started with Warner Shand Lawyers, then with Mallesons Stephen Jaques at it's Sydney office for two years, then with Carter Newell Lawyers in Port Moresby for a further three years.

In 1993, he left Carter Newell Lawyers to start the law firm Fiocco Posman Kua Lawyers in partnership with Messrs Rio Fiocco and Kerenga Kua. The firm has undergone significant changes since then having merged with Tharwell Aisi Lawyers and is now one of the largest national legal firms. Mr Posman is the managing partner of the firm.

In addition to his legal background, Mr Posman has had some prior commercial experience having served on the boards of the Investment Corporation of PNG and Air Niugini and is also a member of Council of the Legal Training Institute, and a council member of the PNG Law Society.

Mr Posman is a member of the PNG Law Society and the PNG Institute of Directors.



Captain (N) Max Sundie Aleale OBE, DMS

Appointed to the Board on 29th September 2006 upon the retirement of Capt R. Renagi, Capt Aleale represents members of the Fund on the Board.

Capt Aleale was promoted on 2nd May 2002 to the rank of Captain (Navy) and appointed Chief of Operations – PNG Defence Force however actually took up duties in this position on 30th June 2004. He is the principle Military Operations and Administrative adviser of the Defence Force to the Commander.

He is currently a member of four Senior Defence Committees and has commanded two patrol boats, a major naval base and a principle naval adviser to the Chief of Operations of the Defence Force. Captain Aleale has considerable operational, administrative and management experience.

He is a graduate of the Joint Services College, Lae; Royal Australian Naval Staff College, Sydney; Asia Pacific Centre for Security Studies, Hawaii and holds a Graduate Diploma in Strategic Studies from the Australian Defence Strategic Studies Centre in Canberra and is a Fellow of the Centre.



Michael Varapik
Independent Director

An accountant by profession, Mr Michael Varapik was appointed to the Board of CTSL in November 2011 as an Independent Director. Mr Varapik is 57.5 years old and has extensive management, financial, operations and marketing experience spanning over 30 years in both the private and public sectors.

Mr Varapik holds the following academic qualifications; a Bachelor of Technology in Accountancy from Unitech, Lae in 1982, a Bachelor of Business from Deakin University Warrnambool, Australia in 1992 and a Master of Business Administration from the International Management Centers, Oxford Brookes College, Oxford, UK in 1999.

Mr Varapik is also a Director of Origin Energy (PNG) Ltd since 2004 and a Professional Member of the PNG Institute of Directors.

Mr Varapik has held senior management positions in the following organisations: Air Niugini as Accounting Manager, Motor Vehicle Insurance Trust as Deputy General Manager, Copra Marketing Board of PNG as CEO, PNG Coconut Commodities Ltd as General Manager, Lower OK Tedi Investment Company Ltd as General Manager, Lihir Mining Area Landowners Association Inc as General Manager and The Alliance Management Group as National Content & Community Affairs Manager, a position he currently holds.

Corporate Governance

The Board is committed to upholding and implementing the principles of good corporate governance. This is considered critical as recent experiences have shown that the lack of good corporate governance has contributed directly to corporate frauds and, in worst-case scenarios, corporate failures leading to a serious erosion of confidence in those entrusted with the responsibility of managing companies – the directors. The enhanced accountability, transparency and integrity flowing from improved corporate governance creates value for shareholders and other stakeholders, reduces costs, increases competitiveness and restores confidence.

The Board is responsible for the corporate governance of the Fund, including its corporate planning, establishing goals for management and monitoring achievement of these goals.

This statement sets out the principle corporate governance practices and disclosures that were in operation during the year.

The Trustee

Comrade Trustee Services Limited (CTSL) is the successor in law to the DFRBF Board and has been approved by the Bank of Papua New Guinea (BPNG) as the licensed trustee for the Fund. As a licensed trustee, it has ultimate legal responsibility for the prudent management of the Fund, and subject to the requirements of the Superannuation Act and the governing rules of the Fund has the power, authority and the discretion generally to do all such acts as it considers necessary or expedient for the sound administration, maintenance, investment and preservation of the Fund.

Shareholder Information

There are five shareholders who each hold one ordinary share “in trust” on behalf of the members of the Fund. These shares attach no beneficial rights to the shareholder, except to ensure compliance with the Companies Act 1997 and the Superannuation Act and are transferable, in the case of the Commander of the Defence Force to his successor and in the case of the other shareholders when they cease to be Directors of the company to their successors. Shareholders of the company as at the year-end are as follows:-

The rights attached to these shares are set out in the constitution of the company and in certain circumstances, are regulated by the Companies Act 1997 and the Superannuation Act 2000. There is only one class of shares and all shares have equal rights.

Each shareholder is entitled to receive notice of, and to attend and vote at general meetings of the company and to receive all notices, accounts and other documents required to be sent to shareholders under the company’s constitution, the Companies Act and the Superannuation Act.

The Board

Comrade Trustee Services Limited is managed under the direction of the Board of Directors. The Board has the ultimate legal responsibility for the prudent management of the Fund, and subject to the requirements of the Superannuation Act 2000

and the governing rules of the Fund has the power, authority and discretion generally to do all such acts as it considers necessary or expedient for the sound management, maintenance, investment and preservation of the Fund.

The Board comprises seven Directors, three of whom represent members of the Fund and four independent Directors. Strict appointments criteria, including a “fit and proper” test ensures that persons appointed to the Board are legally eligible and possess skills, knowledge, experience or expertise in the management of commercial entities and whose inclusion on the board will add value and enhance corporate governance. Board appointments are subject to Bank of Papua New Guinea approval. Directors hold office for a term of three years, at the expiry of which they are eligible to nominate for re-election subject, however, to any restrictions contained in the company constitution and Central Bank approval. No Directors retired during the year.

All Board and Committee meetings are convened in Port Moresby and therefore members of the Board must be residents of the National Capital District.

Name of Shareholder	Class of Shares	No of Shares	Value (K)	Special Notes
Brigadier General Francis Agwi	Ordinary	1	1.00	Share held in trust for members
Chris Alu	Ordinary	1	1.00	Share held in trust for members
Col D. Takendu, OBE (Rtd)	Ordinary	1	1.00	Share held in trust for members
Capt Max Aleale, DMS	Ordinary	1	1.00	Share held in trust for members
Capt Tom Ur, OBE	Ordinary	1	1.00	Share held in trust for members
Total		5	5.00	

The names of members of the Board at the date of this report, including their remuneration, status on the Board and information relating to their attendance at meetings for the 12 months to 31st December 2011 are as follows:-

Name of Director	Fee Received*	Board Status	Date of Appointment/Resignation	Board	Attendance of Meetings Audit Committee	Appointments Committee
Chris Alu (Chairman)	50,000	Current	19/12/02	4/4	-	-
Col D. Takendu, OBE (Rtd)	40,000	Current	19/12/02	3/4	-	1/2
Capt (N) Max Aleale, DMS	40,000	Current	29/09/07	4/4	-	1/2
Capt (N) Tom Ur, OBE	40,000	Current	1/02/2002	4/4	-	-
Kisakiu Posman	40,000	Current	6/04/2004	2/4	-	1/2
Michael Varapik	5,560	Current	11/11/2011	1/4	-	-
Vacant	-	-	-	-	-	-

* Fees shown above are before tax.

The Board complied with its approved calendar of meetings planned for the year.

All meeting papers are circulated seven days in advance to all Directors. This enables adequate time to read and understand the matters requiring Board action, thus ensuring informed decisions are made for the ultimate benefit of the Fund.

Audit & Compliance Committee

The Committee did not meet during the year due to the lack of quorum that had resulted from the resignation of two committee members since 2009. In the absence of Audit Committee meetings the matters for discussion were dealt with directly by the Board. The role of the Committee includes review of the Fund's financial statements, review of audit reports, review of the company's accounting policies, review of internal control systems and procedures including risk assessment and management strategies, review of the actuarial report, tenders, annual budgets, investment policy and guidelines and related matters. Members of the Audit Committee at the date of this report are:-

Name of the Committee	Committee Status
Vacant	Chairman
Captain (A) Ur Tom, OBE	Member
Kisakiu Posman	Member
Vacant	-

There are two vacancies on the Audit & Compliance Committee since the resignation of Meress. Alu and Kalo in 2009. These vacancies will be filled when a full complement of the Board is in place.

Appointments & Remuneration Committee

The Committee met once during the year. The role of the Committee includes succession planning, review and recommendation of candidates for Board vacancies, review of Board fees and remuneration, appointment of executive management, review of salary and remuneration including terms of employment of senior management and related matters. Members of the Appointments & Remuneration Committee at the date of this report are:-

Name of the Committee	Committee Status
Colonel David L. Y. Takendu, OBE (Rtd)	Chairman
Kisakiu Posman	Member
Captain (N) Max Aleale DMS	Member
Vacant	-

There is one vacancy on the Appointment & Remuneration Committee resulting from Mr Brian Hull's resignation which will be filled when a full complement of the Board is in place.



Corporate Governance

External Board Positions and Disclosures

As at 31st December 2011, the following external Board positions were held by Directors and disclosures made by Directors and management.

Name	Nature of Interest	Companies
Chris Alu	Shareholder/Director	Ebony Marketing Limited
	Shareholder/Director	Comrade Trustee Services Limited
	Member	PNG Institute of Directors
Col. David Takendu, OBE (Rtd.)	Shareholder/Director	Comrade Trustee Services Limited
	Chairman	Appointments & Remuneration Committee
	Related Party/Pensioner	DFRBF
	Member	PNG Institute of Directors
Captain Alois Ur Tom, OBE (Navy)	Shareholder/Director	Comrade Trustee Services Limited
	Member	Audit & Compliance Committee
	Employee	PNG Defence Force
	Related Party/Contributor	DFRBF
	Member	PNG Institute of Directors
Kisakiu Posman	Partner/Employee	Posman Kua Aisi Lawyers
	Director	Comrade Trustee Services Limited
	Member	Appointments & Remuneration Committee
	Member	PNG Institute of Directors
	Member	PNG Law Society
Captain Max Aleale, OBE,DMS (Navy)	Related Party/Contributor	DFRBF
	Employee	PNG Defence Force
	Shareholder/Director	Comrade Trustee Services Limited
	Shareholder	Credit Corporation
	Shareholder	Kina Asset Management Limited
	Member	Appointments & Remuneration Committee
	Member	PNG Institute of Directors
Michael Varapik	Employee	The Alliance Management Group
	Director	Origin Energy PNG Limited
	Member	PNG Institute of Directors
George Uware	Employee	Comrade Trustee Services Limited
	Related Party	Nambawan Super Limited
	Member	PNG Institute of Directors
Richard Sinamoi	Employee	Comrade Trustee Services Limited
	Secretary/Public Officer	Comrade Trustee Services Limited
	Related Party	Nambawan Super Limited
	Member	Association of Superannuation PNG
	Member	PNG Institute of Directors
	Director	Paradise Foods Limited
	Shareholder	Credit Corporation
	Director	Kina Assets Management Limited

Employees of the company appointed to the Boards of subsidiary companies in which CTSL has controlling interest are not paid any fees.

Independent Professional Advice

With the approval of the Chairman, a Director is entitled to seek independent professional legal and accounting advice at the expense of the Fund, regarding any aspect of that Director's duties and/or issues of concern about the Fund's operations.

Code of Conduct and Ethical Standards

The Board has adopted several codes relating to the conduct of Directors, management and staff including the management of conflicts of interest and confidentiality. CTSL recognises and acknowledges the requirement for Directors and employees to observe and uphold the highest standards of behaviour and ethical standards in the performance of their duties.

Fund Administration

The fund administration function is delegated to and performed by Kina Investment & Superannuation Services Limited (KISSL) in compliance with the Superannuation Act 2000. The current engagement of KISSL for a term of three (3) years expired on 31st December 2011 and the contract was extended for further six (6) months. The Board will opt for open tender, however subject to review outcome.

Investment Management

The investment management function is delegated to and performed by Kina Funds Management Limited (KFML) in compliance with the Superannuation Act 2000. The KFML was re-engaged for a further term of three years when the contract expired on 31st December 2011.

The investment manager is required to manage the Fund's investment portfolio in accordance with the investment policy approved by the trustee from time to time and subject to prudential standards issued by the Bank of Papua New Guinea and the Superannuation Act.

Employee Remuneration

Please refer to Notes 10.1 and 23.1 and 23.2 of the Notes to the Financial Statements for details.

Regulatory Supervision by Bank of Papua New Guinea

As part of the Bank of Papua New Guinea's regulatory supervision of the superannuation industry, the Bank undertakes, from time to time, an independent review of the operations of the Fund in addition to the independent financial audit undertaken by an auditor. The review by the BPNG is aimed at ensuring adherence to world best practice in corporate governance standards and compliance by the Trustee with the provisions of the Superannuation Act and Prudential Standards in the management of the Fund. The last prudential review of the Fund was undertaken in April 2009.

Independent Auditor

The current independent auditor is Deloitte Touche Tohmatsu and Board confirms compliance with Clause 9(a)(ii) of the Prudential Standard Number 5/2008 in the engagement of the auditor. Fees paid to the auditor are summarised as follows:

Auditor	2006 K	2007 K	2008 K	2009 K	2010 K	2011 K
Deloitte Touche Tohmatsu	K117,664	K135,076	K133,737	K150,500	126,000	134,000
Partner In-charge	S. Theron	S. Theron	S. Theron	S. Theron	S. Theron	P. Barber

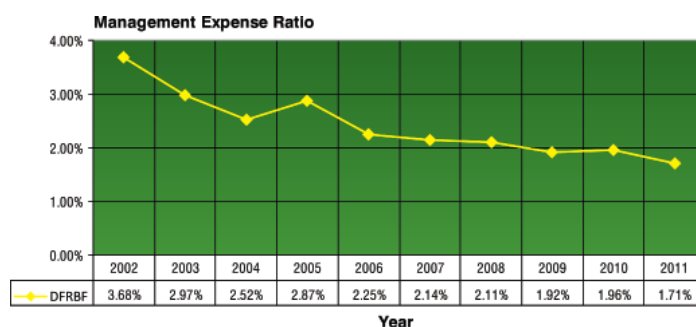
The auditor's appointment is for 12 months at the expiry of which further engagement is determined by tender. To ensure independence and avoid conflicts of interest the auditor is prohibited from any accounting assignments or valuation of Fund assets and liabilities.

Management Expense Ratio

Management expense ratio (MER) is an underlying key financial performance indicator used to measure the performance of the fund relative to industry standards and also to assist identifying adverse deviation and take corrective action.

The MER is determined by taking the sum of all expenses of the Fund as prescribed in Prudential Standard 3/2006 (excluding depreciation, direct investment expenses and pension and related benefit expenses) divided by the average net asset value of the Fund expressed as a percentage. The net asset values are based on audited accounts and after allowing for net changes in market values, depreciation and taxation.

Consequently the MER for the Fund for the last ten years are as follows;



Staff Employment Policy

CTSL is an equal opportunity employer and does not discriminate on the basis of sex, race, colour, religion or sexual orientation. Employment is merit based. There were 25 staff employed by the company during the year (2011 – 2010).

Corporate Governance

Investment transactions (excluding cash and treasury notes)

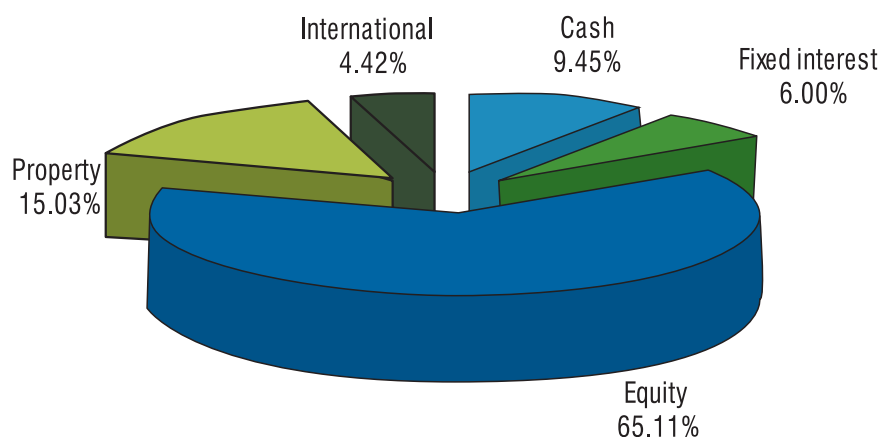
Name of Entity	Transaction Type	Classification	Settlement Date	Number of Shares	Amount (Kina)
Bank South Pacific	Share sale	Equity	Various	(284,650)	(1,968,005)
Oil Search	Share sale	Equity	Various	(1,000,000)	(18,738,045)
Oil Search	Share Purchase	Equity	Various	165,959	2,388,423
BHP Billiton Limited	Share Purchase	Equity	Various	13,000	1,161,625
Commonwealth Bank of Australia	Share Purchase/DRP	Equity	Various	11,405	1,250,297
Macquarie Atlas Roads	Share Sale	Equity	Various	(12,000)	(45,905)
Newcrest Mining Ltd	Share Purchase	Equity	Various	36,404	3,304,260
Southern Cross Media Group	Share Purchase/Option	Equity	Various	64,285	247,184
Southern Cross Media Group	Share Sale	Equity	Various	(139,285)	(311,475)
Alpha Financial Product	Share Sale	Equity	Various	(2,000)	(383,953)
Mahogany Capital Limited	Share Sale	Equity	Various	(2,500)	(524,425)
AMP Capital China Growth Fund	Redemption	Equity	Various	(149,250)	(294,357)
Section 14, Lot 11 & 12, Stop & Shop	Renovation	Properties	16/05/2011	N/A	173,120
Section 35, Lot 41 Hohola	Purchase Land	Properties	4/01/2011	N/A	3,524,000

Investment Performance Highlights

The composition of the investment portfolio and asset allocation as at 31st December 2011 relative to the prior year is summarized as follows:

Asset Classification	2011	Portfolio Value (Kina) 2010	2011	Percentage Holdings % 2010	Neutral Allocation % 2011	Sector Range Low-High % 2011
Cash	33,600,643	16,883,770	9.45%	4.89%	5%	0-10%
Fixed interest	21,320,882	15,288,264	6.00%	4.43%	15%	10-30%
Equity	231,442,448	247,111,751	65.11%	71.60%	50%	40-60%
Property	53,411,163	43,715,371	15.03%	12.67%	10%	5-20%
International	15,698,704	22,139,126	4.42%	6.41%	20%	10-30%
TOTAL	355,473,840	345,138,282	100.00%	100.00%	100%	100%

Asset Allocation - 31 December 2011



Equity Portfolio – PNG

Company Name	2011 K	Total Market Value 2010 K
Listed		
- Bank South Pacific Ltd	113,087,683	120,934,190
- Credit Corporation Ltd	5,335,365	4,850,332
- Highlands Pacific Ltd	1,121,895	3,209,679
- Kina Asset Management Ltd	6,937,200	7,380,000
- Marengo Mining Ltd	33,036	75,701
- New Britain Palm Oil Ltd	9,091,975	9,128,343
- Oil Search Ltd	19,379,322	42,512,438
Sub-total	154,986,475	188,090,683
Unlisted		
- BPT PNG Ltd (Toyota Tsusho)	3,199,868	2,612,782
- Hunter Ltd	28,980,000	24,460,030
- Paradise Foods Ltd	24,705,000	18,009,000
- Pacific Balanced Fund	316,383	316,383
- Post Courier Ltd	753,011	1,377,378
- South Pacific Brewery Ltd	18,501,710	12,245,695
Sub-total	76,455,973	59,021,268
Total	231,442,448	247,111,751

Cash Portfolio

Bank Name	International K	PNG K	Total 2011 K
Cash on hand			
. Petty cash	-	700	700
Sub-total	-	700	700
Interest Bearing Deposits (< 90 days)			
- ANZ – Investment account	-	17,452	17,452
- Bank of Queensland	2,424,685	-	2,424,685
- Credit Suisse	9,557,035	-	9,557,035
- West Pac Bank	-	6,793,537	6,793,537
- Australian and New Zealand Bank	-	3,207,348	3,207,348
- Bank South Pacific	-	7,845,080	7,845,080
- Kina Finance	-	1,664,674	1,664,674
- BSP – Main account	-	76,516	76,516
- BSP – Benefits account	-	193,244	193,244
- BSP – Management account	-	30,602	30,602
- BSP – Housing account	-	299,596	299,596
Sub-total	11,981,720	20,128,049	32,109,769
On-call			
- Bank of Queensland	1,244,158	-	1,244,158
- Credit Suisse	246,016	-	246,016
Sub-total	1,490,174	-	1,490,174
Total Cash & IBD's < 90 days	13,471,894	20,128,749	33,600,643

Corporate Governance

Fixed Interest Portfolio

Description	Serial No	Maturity Date	Coupon Rate	Face Value 2011 K	Face Value 2010 K
Government Inscribed Stock	S15112016 (G26)	15/11/2016	9%	4,204,238	4,246,095
	S15112021 (G27)	15/11/2021	12%	3,304,945	3,335,803
	S15112021 (G25)	15/11/2021	12%	1,006,424	1,007,074
	S15112016 (G28)	15/11/2016	9%	1,007,037	1,008,480
	S15112023 (G37)	15/11/2023	12%	2,186,299	2,201,978
	S15112023 (G38)	15/11/2023	12%	1,062,632	1,067,903
	S15112018 (G39)	15/11/2018	9%	336,001	336,437
	S15022017 (G41)	15/02/2017	9%	2,168,501	570,161
Sub-total – GIS				15,276,077	13,773,931
Treasury Bills - Bank of PNG				4,656,907	-
Members Housing Advance				1,387,898	1,514,333
Total Fixed Interest				21,320,882	15,288,264

Property Portfolio

Name	Description	2011 K	Market Value 2010 K
PNG			
1. Defense Haus, Hunter Ltd	Section 03, Lot 18-20, Hunter St., Port Moresby, NCD	7,960,400	7,075,600
2. Latitude 9 Apartments	Section 42, Lot 01, Ogoa St., Granville, NCD	22,858,000	18,208,000
3. Lawes Road Apartments (50%)	Section 07, Lot 24, Lawes Rd., Granville, NCD	5,700,801	5,715,420
4. Stop & Shop Building	Section 14, Lot 11 & 12, Angau Dr., Boroko, NCD	7,139,962	6,415,000
5. Ela Makana	Section 34, Lot 34 Ela Makana, Granville	6,228,000	6,301,351
6. Hohola	Section 35, Lot 41, Hohola	3,524,000	-
Sub-total		53,411,163	43,715,371
International			
1. Canberra house, ACT, Australia	36 Gadali Crescent, Ngunnawal, ACT, 2913, Aust	1,229,727	1,569,984
Sub-total		1,229,727	1,569,984
Total Property		54,640,890	45,285,355



International Portfolio

Asset Classification	2011 K	Market Value 2010 K
Listed		
- ANZ Bank Ltd	1,330,812	1,864,271
- Alpha Collateralized Debt Obligation	-	345,975
- BHP Billiton Ltd	3,198,055	3,612,774
- Commonwealth Bank of Australia	2,276,478	1,351,164
- Southern Cross Media Group	-	415,170
- Mahogany Capital Ltd	-	399,202
- Multiplex Sites Trust	399,741	519,029
- Telstra Corporation	2,691,054	2,777,006
- Macquarie Atlas Roads	-	48,543
- Newcrest Mining Limited	4,668,949	4,029,110
Sub-total	14,565,090	15,362,244
Unlisted		
- ABN AMRO Social Infrastructure Trust	997,083	914,218
- AMP Capital China Fund	-	368,432
Sub-total		1,282,650
Total Equity	997,083	16,644,894
Cash		
- Bank of Queensland	3,668,843	3,702,403
- Credit Suisse	9,803,051	221,845
Sub-total	13,471,894	3,924,248
Property		
- Canberra, ACT, House	1,229,727	1,569,984
Total International	15,698,704	22,139,126

Valuation methodology

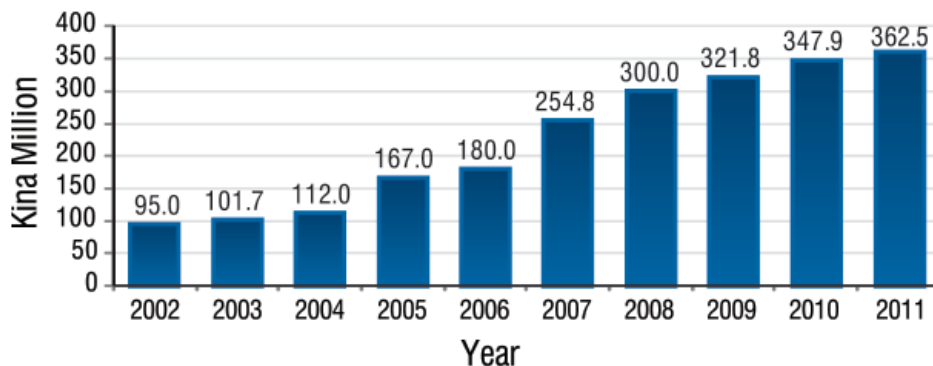
The valuation methodology adopted by the Trustee is as follows:-

Listed equities	-	Closing market price as quoted by the relevant stock exchange at balance date
Unlisted equities	-	Price as determined by independent professional valuation
Property	-	Value as determined by a registered property valuer and undertaken annually
Government securities	-	At purchase price/face value



Fund Highlights at a Glance

Net Asset Value of Fund

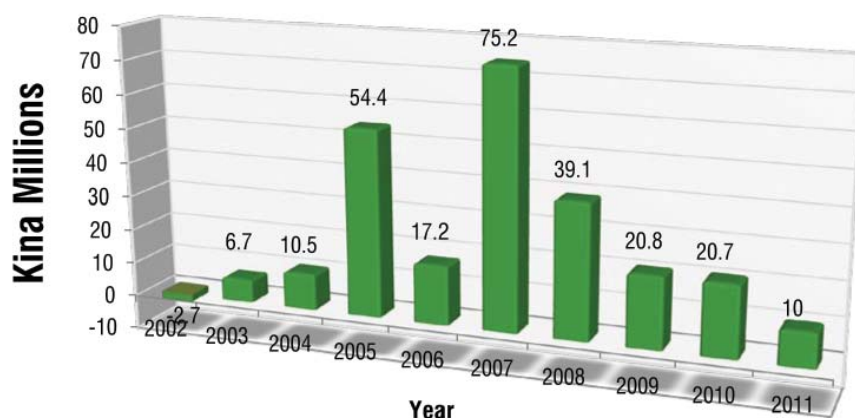


Note: Net assets for 2008 restated.

The above bar graph shows that the Fund has grown steadily from K95.0 million in 2002 to K362.5 as at 31st December 2011. Despite the adverse consequences of the

financial crisis which have already had a detrimental impact on Fund operations to date, your trustee will endeavour to ensure the sound custody, investment and preservation of the funds entrusted to its care with the aim of assuring the financial security of members at retirement.

Net Surplus (After Tax)



Except for 2002 when a loss of approximately K3.0 million was sustained the above graph illustrates that overall,

net surplus after tax has grown during the ten year period under review.

Comparative Statistical Summary

		2003	2004	2005	2006	2007	2008	2009	2010	2011
NET FUND ASSETS										
Net assets	K(m)	101.7	112.0	167.0	181.0	255.0	300.0	321.8	347.9	362.5
Net asset growth	%	7.01	10.36	48.47	8.49	41.45	17.01	6.93	6.47	4.00
Reserve4	K(m)	-	-	-	-	-	9.821	0.387	5.580	4.519
NET SURPLUS										
Net surplus after tax	K(m)	6.7	10.5	54.4	17.2	75.2	39.1	20.8	20.7	10.0
EXPENSES										
Benefits	K(m)	15.2	8.6	19.0	20.9	10.9	10.5	7.4	7.7	9.2
Trustee administration	K(m)	2.4	2.1	3.0	4.1	4.6	4.0	4.1	4.5	4.0
Fund administratio	K(m)	0.249	0.274	0.387	0.411	0.389	0.371	0.450	0.330	0.291
Investment management	K(m)	0.322	0.230	0.597	0.698	1.005	1.400	1.400	1.600	1.400
Management expense ratio	%	2.97	2.52	2.87	2.25	2.14	2.11	1.92	1.96	1.71
INCOME										
Investment income	K(m)	10.0	20.0	63.0	33.7	86.0	45.2	26.6	28.6	20.1
Contributions										
State share	K(m)	8.6	4.8	11.0	12.4	6.3	6.7	4.4	4.5	5.1
Members	K(m)	2.0	1.9	1.9	1.9	1.7	1.9	1.9	2.9	2.7

Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER 2011

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TRUSTEE STATEMENT

FOR THE YEAR ENDED 31ST DECEMBER 2011

In the opinion of the Trustee for the Defence Force Retirement Benefits Fund ("the Fund") the accompanying Statement of Changes in Net Assets, Statement of Net Assets, Statement of Cash Flows and Notes to the financial statements for the year ended 31 December 2011 and has been properly drawn up and show the true state of affairs of the Fund as at the date. We are of the opinion that:

- a) the result of the Fund's operations for the year have not been materially affected by items, transactions or events of an abnormal character;
- b) no circumstances have arisen which would render any amount in the statements misleading;
- c) there are no contingent liabilities that could materially affect the ability of the Fund to meet its obligations as and when they become due; and
- d) the Fund has complied with the reporting requirements as prescribed by the Superannuation (General Provisions) Act 2000 and as required by Bank of Papua New Guinea Prudential Standards 3/2008 and 5/2008.

Dated at Port Moresby this 28th day of March 2012.

For and on behalf of the Board of Comrade Trustee Services Limited.



Chris Alu
Chairman of the Board of Trustees



Captain (N) Alois Ur Tom OBE
Director

MANAGEMENT STATEMENT

FOR THE YEAR ENDED 31ST DECEMBER 2011

In our opinion the accompanying Statement of Changes in Net Assets, Statement of Net Assets, Statement of Cash Flow and Notes to the financial statements for the year ended 31 December 2011 and has been properly drawn up and show the true state of affairs of the Fund as at the date. We are of the opinion that:

- 1) the result of the Fund's operations for the year have not been materially affected by items, transactions or events of an abnormal character;
- 2) no circumstances have arisen which would render any amount in the statements misleading;
- 3) there are no contingent liabilities that could materially affect the ability of the Fund to meet its obligations as and when they become due; and
- 4) the Fund has complied with the reporting requirements as prescribed by the Superannuation (General Provisions) Act 2000 and as required by Bank of PNG Prudential Standards 3/2008 and 5/2008.

Dated at Port Moresby this 28th day of March 2012.

For and on behalf of the management of Comrade Trustee Services Limited.



Richard Sinamoi
Chief Executive Officer

DIRECTORS' REPORT

FOR THE YEAR ENDED 31ST DECEMBER 2011

The directors of Comrade Trustee Services Limited submit herewith the annual financial report of the Fund for the financial year ended 31 December 2011. In order to comply with the provisions of the Companies Act 1997 and Superannuation (General Provisions) Act 2000, the directors report as follows:

The names and particulars of the directors and office holders of the Trustee company during or since the end of the financial year are:

Name	Executive/non-executive director
Mr Chris Alu	Non Executive -Chairman of the Board of Trustees
Captain (N) Alois Ur Tom, OBE	Non Executive
Col David Takendu, OBE (Rtd)	Non Executive
Captain (N) Max Aleale, DMS	Non Executive
Mr Kisakiu Posman	Non Executive
Michael Varapik	Non Executive

Trustee Secretary

The company secretary is Mr Richard Sinamoi.

Review of operations

The Fund reported a net surplus of K10,047,412 (2010: K20,799,550) after income tax benefit of (K1,227,890) (2010:K1,285,415).

Changes in state of affairs

During the financial year there was no significant change in the principal activities or state of affairs of the Fund other than that referred to in the financial statements or notes thereto.

Change in accounting policies

No changes in accounting policies occurred during the current year.

Entries in the interest register

There were no entries in the interest register made during the year.

Directors' remuneration

Remuneration paid to directors has been disclosed in note 23.3 to the financial statements.

Remuneration above K100,000 per annum

The number of employees or former employees, not being directors of the Trustee company, whose total remuneration and the value of other benefits received, exceeded K100,000, falls within each relevant K50,000 band are disclosed in note 23.2.

Donations

No donations were made during the current year, (2010 : K350).

Independent audit report

The financial statements have been audited by Deloitte Touche Tohmatsu and should be read in conjunction with the independent audit report on pages 4 and 5. Fees paid for audit services are disclosed in note 10.2 to the financial statements.

Subsequent events

There has not been any matter or circumstance, other than that referred to in the financial statements or notes thereto, that has arisen since the end of the financial year, that has significantly affected, or may significantly affect, the operations of the Fund, the results of those operations, or the state of affairs of the Fund in future financial years.

Signed in accordance with a resolution of the directors.

On behalf of the Directors



Mr Chris Alu
Chairman of the Board of Trustees



Captain (N) Alois Ur Tom OBE
Director

Dated at Port Moresby 28th March 2012



Deloitte Touche Tohmatsu

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Independent Auditor's Report to the members of Defence Force Retirement Benefits Funds

Report on the Financial Report

We have audited the accompanying financial statements of the Defence Force Retirement Benefits Fund, which comprise statement of net assets as at 31 December 2011, and the statement of changes in net assets and the statement of cash flows for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Management's Responsibility for the Financial Report

The management of Defence Force Retirement Benefits Fund are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, Superannuation (General Provisions) Act 2000 and Prudential Standards issued by the Bank of Papua New Guinea. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with International Standards on Auditing. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Audit Opinion

In our opinion,

- (a) the financial statements of Defence Force Retirement Benefits Fund give true and fair view of the Fund's financial position as at 31 December 2011, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, Superannuation (General Provisions) Act 2000 and Prudential Standards issued by the Bank of Papua New Guinea; and
- (b) proper accounting records have been kept by the Fund.

Other Information

We have no interest in the Fund or any relationship other than of auditors of the Fund.

DELOITTE TOUCHE TOHMATSU

Paul Barber

Registered under the Accountants Act 1996

Partner, Chartered Accountants

Port Moresby, 30th day of March 2012

STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED 31ST DECEMBER 2011

	NOTES	2011 K	2010 K
Revenue			
Investment Revenue			
Interest income	6	2,614,984	2,141,812
Dividends		15,738,733	11,221,931
Property income	7	2,739,088	2,231,469
Change in fair value of investment properties	16	5,315,614	6,085,883
Change in fair value of financial assets		(20,874,745)	6,569,753
Gain on sale on financial assets		14,255,040	393,094
Direct investment expense		348,727	(77,028)
Net Investment Revenue		20,137,441	28,566,914
Contribution Revenue			
Contributions received from members		2,702,470	2,864,174
State share of contribution	9	5,132,020	4,517,809
Total Contribution Revenue		7,834,490	7,381,983
Other Revenue (expense)	8	(3,692,610)	472,891
Total Revenue		24,279,321	36,421,788
Less: Expenses and benefits paid			
Benefits paid	9	9,212,359	7,763,584
Trustee administration expenses	10	4,096,717	4,581,891
Fund investment and administration expenses	11	2,150,723	1,991,368
Total expenses and benefits paid		15,459,799	14,336,843
Change in net assets before income tax		8,819,522	22,084,945
Income tax expense/(benefit)	12	(1,227,890)	1,285,415
Change in net assets after income tax		10,047,412	20,799,530
Changes in revaluation reserve	15.2	4,519,970	5,580,050
Net assets available to pay benefits at beginning of the year		347,992,970	321,613,390
Net assets available to pay benefits at end of the year	21	362,560,352	347,992,970

See accompanying notes to the financial statements

STATEMENT OF NET ASSETS

FOR THE YEAR ENDED 31ST DECEMBER 2011

	NOTES	2011 K	2010 K
Assets			
Cash and cash equivalents	13	38,257,548	22,782,883
Loans to members and others	14	1,387,898	1,514,333
Current income tax receivable		249,234	2,348,749
Deferred income tax assets	12	2,573,107	507,700
Financial assets			
Fair value through profit and loss	15.1	218,024,620	238,737,880
Available for sale	15.2	28,980,000	24,460,030
Held to maturity	15.3	15,276,078	13,773,931
Investment properties	16	54,640,890	45,285,355
Property and equipment	17	570,566	709,192
Other assets	18	6,880,914	3,790,073
		366,840,855	353,910,126
Liabilities			
Employee provisions	19	634,010	816,041
Deferred income tax liabilities	12	1,498,366	3,093,067
Other liabilities	20	2,148,127	2,008,048
		4,280,503	5,917,156
Net assets available to pay benefits	21	362,560,352	347,992,970

See accompanying notes to the financial statements

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31ST DECEMBER 2011

	NOTES	2011 K	2010 K
Cash flows from operating activities			
Interest received		2,405,058	1,404,895
Dividend received		15,738,733	11,221,931
Property income received		44,145	1,576,963
Contributions received from the members		2,702,470	2,864,174
Benefits paid -including state share		(9,212,359)	(7,763,584)
Cash receipt of state share (benefits)		5,346,108	5,325,000
Cash payment to employees & suppliers		(5,570,393)	(6,288,065)
Income taxes paid		(332,701)	(292,287)
Cash flows from operating profits before changes in operating assets & liabilities		11,121,061	8,049,027
Changes in operating assets & liabilities:			
Net increase in loans to members and others		126,435	(173,922)
Net decrease (increase) in other assets		78,722	2,568,745
Net increase in other liabilities		232,114	59,465
Net Cash provided by operating activities		11,558,332	10,503,315
Cash flows from investing activities			
Proceeds from maturity of term deposits		-	735,114
Proceeds from maturity of treasury bills		(4,656,907)	-
Proceeds maturity of financial assets held-to-maturity		(2,000,000)	-
Disposal of financial assets held-to--maturity		571,000	-
Purchase of property & equipment		(34,980)	(259,961)
Purchase of investment properties		(4,056,334)	(6,462,391)
Purchase of listed shares		(8,270,470)	(8,193,148)
Proceeds from sale of listed shares		22,364,024	5,654,738
Net Cash used in investing activities		3,916,333	(8,525,648)
Net increase in cash & cash equivalents		15,474,665	1,977,667
Cash and cash equivalents at beginning of year		22,782,883	20,805,216
Cash and cash equivalents at end of year	13	38,257,548	22,782,883
See accompanying notes to the financial statements			

1. Significant accounting policies

1.1 Statement of compliance

The financial statements have been prepared in accordance with the Superannuation (General Provisions) Act 2000, International Financial Reporting Standards ("IFRS") and the prudential standards issued by the Bank of Papua New Guinea.

1.2 Basis of preparation

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties, available-for-sale financial assets and financial assets at fair value through profit and loss.

In accordance with the Board's policy, the Fund's investment should be revalued annually.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Fund's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 5.

The principal accounting policies are set out below.

1.3 Revenue recognition

Income is recognised on an accrual basis except for interest income from Member Housing Assistant ("MHA"), which are brought to account when received.

Investment Revenue

1.3.1 Interest revenue

Interest income is recognised when it is probable that the economic benefits will flow to the Fund and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

1.3.2 Dividend revenue

Dividend revenue from investments is recognised when the shareholder's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Fund and the amount of income can be measured reliably).

1.3.3 Property rental income

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct cost incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

1.3.4 Movement in fair market value of investments

Changes in fair market value of investments are recognised as income and are determined between the difference between the fair market value at year end or consideration received (if sold during the year) and the fair market value as at the prior year end or cost (if the investment was acquired during the period).

1.3.5 Member contributions

Contributions received from members are recognised upon receipt.

1.3.6 State share of contribution

Contributions from the Papua New Guinea government are recognised upon receipt.

1.4 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used in the determination of deferred income tax.

Deferred tax assets are recognised to the extent that it is probable that the future taxable profit will be available, against which the temporary differences can be recognised.

Income tax payable on profits based on the applicable tax laws in each jurisdiction is recognised as an expense in the period in which profits arise. The tax effects of income tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be recognised.

1.5 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation. Depreciation is calculated on the basis of straight line to write-off the cost of such assets to their residual values over their estimated useful lives as follows:

Furniture and fittings	15%
Motor vehicle	30%
Office equipment	20%
Renovation	10%
Software	33%

The asset's residual values and useful lives are reviewed and adjusted, if appropriate at each balance sheet date.

Profits or losses on disposal (being the difference between the carrying value at the time of sale or disposal and the proceeds received) are taken into account in determining operating profit for the year. Repairs and maintenance costs are charged to the statement of changes in net assets when the expenditure is incurred.

1.6 Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation, is measured initially at its cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value. Gains or losses arising from changes in the fair value of investment property are included in profit or loss in the period in which they arise. Land and buildings are valued at 31 December 2011. The valuations were performed by the following registered valuers;

Registered Valuer	Properties
The Professional Valuer of PNG Ltd	Hunter Ltd, Stop & Shop and Latitude 9
Savills (Australia)	Lawes Road
Colliers International Holdings (Australia)	Canberra, ACT House

The valuation reports indicate that several methods have been considered for the valuation process and includes: capitalisation method, summation method and discounted cash flow method.

1.7 Financial assets

The Fund classifies its financial assets into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL) 'available-for-sale' (AFS) and held-to-maturity. Management determines the appropriate classification of its investments at the time of the purchase.

Financial assets intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates, or equity prices are classified as FVTPL.

Investments are valued as at 31 December 2011 as follows:

- i. Listed shares are valued at 31 December 2011 at last sale price on that date. Off-shore investments are converted using the ANZ Bank exchange rate. The rate used AUD0.4690.
- ii. Unlisted shares are independently valued as at 31 December 2011 as adopted by the Board. This valuation was performed by Pertusio Capital Partners Limited as an independent professional valuer. The methodology used in the analysis was a combination of maintainable earnings, dividend yields and discounted cash flows of assets, as appropriate.
- iii. The net movement on revaluation is reflected in the statement of changes in net assets.

Financial assets at FVTPL are subsequently re-measured at fair value based on quoted bid prices. Gains or losses arising from changes in the fair value of securities classified as FVTPL are recognised in the statement of changes in net assets in the period in which they arise.

AFS financial assets are recognised at fair value based on an independent valuation. Gains or losses arising from the change in the fair value are recognised in the investment revaluation reserve.

Held-to-maturity investments are non derivative financial assets with fixed or determinable payments and fixed maturities that the Fund's management has the positive intention and ability to hold-to-maturity. Were the Fund to sell other than insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available-for-sale.

Held-to-maturity investments are carried at amortised cost using effective interest rate method.

1.8 Loans and impairment losses

Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Fund provides money, goods or services directly to a debtor with no intention of trading the receivable.

Loans originated by the Fund by providing money directly to the borrower are recognised as loans originated by the Fund and are carried at cost, which is defined as the fair value of cash consideration given to originate those loans as is determinable by references to market prices at origination date. Third party expenses, such as legal fees, incurred in securing a loan are treated as part of the cost of the transaction.

1.9 Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition including, cash, treasury bills and term deposits.

1.10 Foreign currency

1.10.1 Functional presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in Kina, which is the Fund's functional and presentation currency.

1.10.2 Transactions and balances

Foreign exchange transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign currency gains and losses resulting from the settlement of such transactions and from the transaction at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of changes in net assets.

1.11 Changes in accounting policies and comparatives

Where necessary comparative figures have been adjusted to conform to changes in presentation and accounting policies in the current year. There have been no changes to accounting policies in the current year.

1.12 Employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave, when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Fund in respect of services provided by employees up to reporting date.

Defined contribution plans

Contributions to defined contribution superannuation plans are expensed when incurred.

1.13 Provisions

Provisions are recognised when the Fund has a present obligation (legal or constructive) as a result of a past event, it is probable that the Fund will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

1.14 Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- i. where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- ii. for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

1.15 Payables

Trade payables and other accounts payable are recognised when the company becomes obliged to make future payments resulting from the purchase of goods and services.

2. Description of the Fund

Defence Force Retirement Benefits Fund (the "Fund") was established under the Defence Force Retirement Benefit Fund Act, Chapter 79 (DFRBF Act), however as of 1 January 2003 it is recognised as being established pursuant to Section 8 of the Superannuation (General Provisions) Act 2002 with the repeal of Section 17 of the DFRB Act (provision through which the Fund was initially established) on 31 December 2002.

DFRBF is a defined benefit fund. The Trustee at balance date is Comrade Trustee Services Limited (CTSL). CTSL is licensed by the Bank of Papua New Guinea as the corporate Trustee for the DFRBF. As the licensed corporate Trustee it has ultimate legal responsibility for the prudent management and preservation of the Fund subject to the requirement of the Superannuation Act and governing rules of the Fund.

The Fund is operated for the purpose of providing to members of the Defence Force on retirement and to their families in the event of death and for related purposes. The objective of the Trustee is to ensure that the benefit entitlements of members and other beneficiaries are fully funded by the time they become payable.

Total membership for the Fund as at 31 December 2011 was:

Pensioners	1,805
Current members	2,645
	4,450

Both fund administration and investment management functions are delegated to and performed by Kina Investment & Superannuation Services Limited (KISS) and Kina Funds Management Limited (KFM) in compliance with the Superannuation Act 2000. The engagement of KISS and KFM is for a term of three years. As at 31 December 2011 the contracts expired and that the Trustee will be tendering the services in compliance with the statutory provision.

The principal place of business of the Fund is:

Comrade Trustee Services Limited
Level 6, Defens Haus
Corner Hunter Street & Champion Parade,
Port Moresby, National Capital District
Papua New Guinea

3. Funding arrangements

Contributions are made to the Fund in accordance with Part IV of the DFRBF Act at 6% of members' gross salaries for Member contributions while employer contribution is 60% of pension benefits or resignation benefits calculated based on a formula provided in the DFRBF Act.

4. Liability for accrued benefits

The liability for accrued benefits for Defined Benefit Division Members has been determined on the basis of the present value of the expected future payments that arise from membership of the Fund up to the measurement date. The figure reported has been determined by reference to the expected future salary levels and by application of the market-based, risk-adjusted discount rate and relevant actuarial assumptions. The actuary undertook the valuation of accrued benefits for Defined Benefit as part of an actuarial review as at 31 December 2008. The actuarial investigation uses an aggregate costing method, whereby the discounted values of future benefits are compared with the net fund of the assets plus the discounted value of contributions paid by the existing members only and no assumptions are made regarding new entrants. Detailed discussion of the review is provided in the actuarial report dated 2 March 2010.

Significant assumptions used applied in the actuarial report are as follow:

Investment Yield	8%
Salary Increase	6%
Pension Increase	4%
Crediting rate	8%
Pension Commutation	50%

The vested benefits are calculated as the total benefits payable if every contributor of the Fund left voluntarily at the review date as follows:

	31 December 2009 Kina	31 December 2008 Kina
Liability for accrued benefits	49,194,000	30,780,000
Net value of assets	250,305,000	157,199,000

Although the actuarial report is prepared as at 31 December 2008, in terms of the requirements of Section 24 of the Defence Force Retirement Benefits Act, Chapter 76, the next actuarial investigation of the fund should be carried out no later than 31 December 2011 for the two years ended on 31st December 2010.

Accrued benefits were previously valued as part of a comprehensive review undertaken as at 31 December 2008.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2011

	2011 K	2010 K
5. Critical accounting estimates and judgements		
Estimates and judgments are continually evaluated and are based on historical experience and other factors, including future events that are believed to be reasonable under the circumstances.		
The Fund makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:		
a) Allowance for losses		
Other assets	-	348,727
6. Interest income		
This account consists of:		
Cash and short term funds	1,213,448	652,422
Loans and advances	112,861	86,428
Treasury bills	20,305	-
Financial assets		
Available for sale	-	45,744
Held-to-maturity	1,268,371	1,357,218
	2,614,984	2,141,812
7. Property income		
Rent	3,457,492	2,867,657
Less: Other management expense	(718,404)	(636,188)
	2,739,088	2,231,469
8. Other investment income (expenses)		
Gain/(loss) from foreign exchange	(3,693,246)	119,859
Others	636	353,032
	(3,692,610)	472,891
9. Benefits		
Pension and back pension	8,525,609	7,506,172
Refunds	359,631	160,939
Gratuities	13,210	(3,534)
Lump sum	313,909	100,007
	9,212,359	7,763,584
Less : State share	(5,132,020)	(4,517,809)
Net benefit paid	4,080,339	3,245,775

As discussed in note 3, in accordance with Part IV of the DFRBF Act the employer (the "State") contribution is 60% of pension benefits.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2011

	NOTES	2011 K	2010 K
10. Trustee administration expenses			
Staff expenses	10.1	2,049,046	1,887,398
Other administrative expenses	10.2	1,083,331	1,776,771
Depreciation		173,606	146,150
Software cost		5,453	1,159
Operating lease		303,502	303,452
GST expense		229,268	292,785
Other		252,511	174,176
		4,096,717	4,581,891
10.1 Staff expenses			
Salaries and wages		1,225,755	1,110,259
Superannuation contributions		117,315	56,988
Staff accommodation		376,588	409,277
Travel and accommodation		31,570	27,585
Training		13,527	47,050
School fee allowances		171,916	138,135
Other		112,376	98,104
	10	2,049,046	1,887,398
As at 31 December 2011 the Fund had 25 (2010: 25) employees.			
10.2 Other administrative expenses			
Advertising		48,384	60,782
Board of Trustee expenses		313,816	228,370
Internet service provider		52,110	61,686
License fee		41,379	134,750
Printing and stationery		38,768	75,798
Professional fees			
Audit services		145,739	147,375
Legal		149,188	111,728
Consulting		605	62,305
Telephone		68,582	69,104
Insurance		43,047	75,612
Business travel		20,269	41,644
Sundry expenses		161,445	707,617
	10	1,083,331	1,776,771
11. Fund investment and administration expenses			
Fund administration fee		291,656	330,689
Investment management fee		1,857,867	1,658,914
Benefits payment fee		1,200	1,765
		2,150,723	1,991,368
12. Income taxes			
12.1 Income tax recognised in profit or loss			
<i>Tax expense comprises:</i>			
Current tax expense in respect of the current year		6,037,659	2,589,435
Deferred tax expense relating to the origination and reversal of temporary differences		(3,934,708)	1,974,798
Over/(under) provision in prior year		(3,330,841)	(3,278,818)
		(1,227,890)	1,285,415
12.2 The tax expense for the year can be reconciled to the accounting surplus as follows:			
Profit from continuing operations		13,339,492	22,084,945
Income tax expense calculated at 25%		3,334,873	5,521,236
Tax effect of permanent differences		2,702,786	(957,003)
Dividends rebate		(3,934,708)	-
(Over)/under provision in prior year		(3,330,841)	(3,278,818)
		(1,227,890)	1,285,415

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2011

12. Income taxes (continued)

12.3 Deferred tax balances

(a) Deferred tax assets

	Opening balance K	Recognised in Surplus K	Closing balance K
2011			
<i>Temporary difference</i>			
Accruals and allowances	216,411	33,778	250,189
Other assets	87,182	(87,182)	-
Employee benefits	204,107	(45,605)	158,502
Depreciation (differences between tax and accounting value)	-	2,164,416	2,164,416
	507,700	2,065,407	2,573,107

2010

Temporary difference

Accruals and allowances	184,789	31,622	216,411
Other assets	67,925	19,257	87,182
Employee benefits	191,425	12,682	204,107
	444,139	63,561	507,700

(b) Deferred tax liabilities

2011

Rent receivable	7,976	(5,612)	2,364
Interest receivable	281,152	52,271	333,423
Prepaid insurance	16,733	2,918	19,651
Depreciation (differences between tax and accounting value)	2,305,408	(2,305,408)	-
Other assets	481,798	661,129	1,142,927
	3,093,067	(1,594,701)	1,498,366

2010

Rent receivable	7,166	810	7,976
Interest receivable	317,059	(35,907)	281,152
Prepaid insurance	7,678	9,055	16,733
Depreciation (differences between tax and accounting value)	310,100	1,995,308	2,305,408
Gains from foreign exchange translation	412,705	69,093	481,798
	1,054,708	2,038,359	3,093,067

	NOTES	2011 K	2010 K
13. Cash and cash equivalents			
Cash on hand		700	700
Cash in banks		617,409	250,944
Term deposits – less than 90 days		32,982,532	22,531,239
		33,600,641	22,782,883
Placement with other banks – more than 90 days		4,656,907	-
		38,257,548	22,782,883

14. Loans to members and others

Members

Tertiary education scheme	1,917	1,917
Housing advance	1,385,981	1,383,282
	1,387,898	1,385,199

Others

State share	-	129,134
	1,387,898	1,514,333

Loans are at fixed rates. The aggregate amount of non-performing loans on which interest was not being accrued amounted to nil (2010: nil) as at 31 December 2011.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2011

	NOTES	2011 K	2010 K
15. Financial assets			
15.1 Financial assets at FVTPL			
Listed shares	25	169,551,565	203,452,927
Unlisted shares	25	48,473,055	35,284,953
		218,024,620	238,737,880
15.2 Available-for-sale financial assets			
Balance at beginning of year		24,460,030	18,879,980
Change in fair value of AFS financial asset		4,519,970	5,580,050
Balance at end of year		28,980,000	24,460,030
15.3 Held-to-maturity financial assets			
Government securities		15,276,078	13,773,931
		15,276,078	13,773,931

Government securities are investment in government inscribed stock carried at amortised cost. These deposits are held to their maturity which varies between 2011 and 2023. Details of the government inscribed stock are set out in Note 26.

16. Investment properties			
Balance at beginning of financial year		45,285,355	33,152,999
Additions from subsequent expenditure		4,039,921	6,046,473
Net gain/(loss) from fair value adjustments		5,315,614	6,085,883
Balance at end of financial year		54,640,890	45,285,355

The fair value of the Fund's investment property at 31 December 2011 (31 December 2010) has been arrived at on the basis of a valuation carried out at that date by The Professional Valuers of PNG Limited, independent valuers that are not related to the Trustee.

There is uncertainty in the recognition and recording of 50% of the Lawes Road Apartments in CTSL books, especially in respect of asset value and net income accrued from that investment. DFRBF's rights to the ownership to this property will now be recognised only if documentation confirming such right, or a mutually agreed memorandum is entered to between CTSL and NSL clearly declaring CTSL's share in the investment.

	Motor Vehicle K	Furniture and Fitting K	Other equipment K	Renovation K	Software K	Total K
17. Property and equipment						
Cost						
Balance at 1 January 2011	87,203	526,827	496,635	703,839	124,496	1,938,998
Additions	-	-	34,980	-	-	34,980
Disposal	(18,182)	-	-	-	-	(18,182)
Balance at 31 December 2011	69,021	526,827	531,615	703,839	124,496	1,955,797
Accumulated depreciation						
Balance at 1 January 2011	28,535	523,017	283,027	304,736	90,491	1,229,806
Charged during year	20,706	2,337	63,056	70,384	17,123	173,606
Disposal	(18,182)	-	-	-	-	(18,182)
Balance at 31 December 2011	31,059	525,354	346,083	375,120	107,614	1,385,231
Net book value at 31 December 2011	37,961	1,472	185,531	328,719	16,889	570,566
Net book value at 31 December 2010	58,668	3,810	213,607	399,103	34,005	709,192

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2011

	NOTES	2011 K	2010 K
18. Other assets			
Prepayments		92,015	119,314
Debtors – Corporate		6,356,539	3,643,819
Security deposits		33,326	47,142
Accrued interests			
Term deposits		181,442	83,368
Treasury Bills		20,305	-
State share		-	348,727
Financial assets			
Held-to-maturity		188,870	170,468
Sundry debtors		8,419	(274,038)
Total		6,880,914	4,138,800
Less: specific allowance for losses		-	(348,727)
		6,880,914	3,790,073
Movements in specific allowance for losses are as follows:			
Balance at beginning of year		348,730	271,701
Impairment losses during the year		-	77,029
Reversal		(348,730)	-
Balance at end of year		-	348,730
19. Employee provisions			
Balance at beginning of year		816,041	818,782
Charged to profit & loss		(182,031)	(2,741)
Balance at end of year		634,010	816,041
Represented by			
Short term provisions		261,241	261,241
Long term provisions		372,849	554,800
		634,010	816,041
20. Other liabilities			
Creditors		594,574	149,514
Government - retrenchment (i)		498,642	953,963
Unclaimed monies (ii)		12,432	11,149
Accruals		1,042,480	893,422
		2,148,127	2,008,048
(i)	The balance represents the difference between the State share (60%) of the contribution received by the Fund and the payment made to members who were retrenched in 2006. Pending on further instructions from the State, the Fund will either remit the remaining balance to the State or apply this amount against future member retrenchments.		
(ii)	The balance represents outstanding unclaimed benefit payments by members that were processed in prior years.		
21. Net assets available to pay benefits			
Net assets available to pay benefits comprise:			
(a) Members funds			
Balance at beginning of year		325,990,080	305,190,550
Surplus for the year		10,047,412	20,799,530
		336,037,492	325,990,080
(b) Investment revaluation reserve			
Balance at beginning of year		22,002,890	16,422,840
Change in fair value of AFS financial asset		4,519,970	5,580,050
		26,522,860	22,002,890
Net assets available to pay benefits		362,560,352	347,992,970
22. Notes to the statement of cash flows			
For the purposes of the cash flow statement, cash includes cash on hand, on call deposits with banks and placement in banks with less than 90 days maturity. (see note 13)			

NOTES	2011 K	2010 K
23. Related party transactions		
Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.		
23.1 Key management personnel remuneration specified in aggregate in the year 2010:		
Mr George B. Uware – CEO (Contract ended on the 21/09/2011)		
Mr Richard Sinamoi – GM (appointed CEO on 21/09/2011)		
Salary	501,546	501,546
Non-monetary (i)	17,728	17,728
Superannuation;		
- Employee	60,000	60,000
- Employer	84,000	84,000
	663,274	663,274
(i) Non-monetary benefits relates to value of assessable benefits charged for salary tax purposes on housing and motor vehicles provided to key management.		
23.2 Above K100,000 per annum		
The number of employees or former employees, not being directors of the Trustee company, whose total remuneration and the value of other benefits received, exceeded K100,000 per annum are as follows:		
K501,000 – K550,000	2	2
23.3 Board of Directors remuneration aggregate in the year 2011:		
Mr Chris Alu		
Captain (N) Alois Ur Tom, OBE		
Col David Takendu, OBE (Rtd)		
Captain (N) Max Aleale, DMS		
Mr Kisakiu Posman		
Michael Varapik		
Stipend	215,559	53,000
Sitting fees	-	108,425
	215,559	161,425

24. Financial risk management

The Fund's strategy focuses on two primary objectives: to maximise long term fund returns and to manage and control business and investment risks. This strategy inherently requires the Fund to pursue a balanced investment strategy which seeks capital growth over the medium to long term with moderate income streams.

All investment undertaken must balance risk against returns. In other words, the investment strategy pursued must determine a mix of growth and defensive assets that best suits the needs of the members.

The Fund can achieve better returns through disciplined application of a good investment process, one that is based on the analysis of investment fundamentals followed by an assessment of relative value.

The Fund is exposed to liquidity risk, interest rate risk, foreign exchange risk, credit risk, government security risk and country risk.

24.1 Liquidity risk

The Fund invests the majority of the assets in investments that are traded in an active market.

The Fund holds securities that are listed on both the Port Moresby Stock Exchange and the Australian Stock Exchange. Those securities that are listed on the Australian Stock Exchange are considered readily realisable while those listed on Port Moresby Stock Exchange are not as the potential buyers may not be readily available at the point of sale.

The liabilities of the Fund are long term in nature and are well structured in terms of benefits comprising of a mix of pension commutation and a fortnightly pension payable through out the life-time of the member.

24.2 Government security risk

The Fund has a significant exposure to the state through its holding of government securities.

24.3 Country risk

To the extent that the Fund holds funds in foreign jurisdiction, a variety of risk may arise in addition to foreign exchange risk – such as changes in local economic condition, local regulatory requirements or non-transparent governance arrangements. The Fund's investments in foreign jurisdiction has been primarily in Australia to the value of K59,890,020 (2010: K67,936,945). Country risk is assessed on a scale of low-medium-high.

24.4 Interest rate risk

The majority of the Fund's financial assets and liabilities are non-interest bearing; as a result, the Fund is not subject to significant amounts of risk due to fluctuations in the prevailing levels of market interest rates. Any excess cash equivalents are invested at short-term market interest rates.

The Fund is exposed to risk associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2011

24. Financial risk management (continued)

The table below summarises the Fund's exposures to interest rates risk. It includes the Fund's assets and liabilities at fair values, categorised by the earlier of contractual re-pricing or maturity dates:

	Weighted average interest rate	Up to 1 Year K	1-5 Years K	Over 5 Years K	Non-interest Bearing K	Total K
31 December 2011						
Assets						
Cash and cash equivalents	3%	38,257,548		–	–	38,257,548
Loans to members and others	8.00%	–	1,387,898	–	–	1,387,898
Current income tax receivable		–	–	–	249,234	249,234
Financial assets						
FVTPL					218,024,620	218,024,620
Available-for-sale		–		–	28,980,000	28,980,000
Held-to-maturity	8.9%	–	–	15,276,078	–	15,276,078
Other assets		–	–	–	6,880,914	6,880,914
Liabilities						
Other liabilities		–	–	–	2,148,127	2,148,127
Interest sensitivity gap		38,257,548	1,387,898	15,276,078	256,282,895	311,204,419
31 December 2010						
Assets						
Cash and cash equivalents	2.61%	22,782,883		–	–	22,782,883
Loans to members and others	8.00%	–	1,514,333	–	–	1,514,333
Current income tax receivable		–	–	–	2,348,774	2,348,774
Financial assets						
FVTPL					238,737,880	238,737,880
Available-for-sale		–		–	24,460,030	24,460,030
Held-to-maturity	9.10%	–	–	13,773,931	–	13,773,931
Other assets		–	–	–	3,790,073	3,790,073
Liabilities						
Other liabilities		–	–	–	2,008,048	2,008,048
Interest sensitivity gap		22,782,883	1,514,333	13,773,931	271,344,805	309,415,952

24.5 Foreign Currency exchange risk

The Fund holds assets denominated in currencies other than Kina, the functional currency. The Fund is therefore exposed to currency risk, as the value of the securities, and the dividends earned denominated in other currencies will fluctuate due to changes in exchange rates.

The table below summarises Fund's exposure to currency risks, concentration of assets and liabilities:

	2011 K	2010 K
Australian currency		
Assets	58,660,293	66,366,961

24.6 Foreign currency sensitivity analysis

The Fund is mainly exposed to the Australian dollar.

The following table details the Fund's sensitivity to a 2% increase and decrease in the Kina against the Australian dollar. 2% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 2% change in foreign currency rates. The sensitivity analysis includes deposits and investments where the denominations are in Australian dollar. A positive number below indicates an increase in profit and other equity where the Kina strengthens 2% against Australian dollar. For a 2% weakening of the Kina against the Australian dollar, there would be a comparable impact on the profit and other equity, and the balances below would be negative.

Surplus/(Deficit)	271,843	(1,301,313)
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24. Financial risk management (continued)

24.7 Fair values of financial assets and liabilities

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Fund's balance sheet at their fair value. Bid prices are used to estimate fair values of assets, whereas offer prices are applied for liabilities.

	Carrying Value		Fair Value	
	2011	2010	2011	2010
	K	K	K	K
Assets				
Cash from other banks	38,257,548	22,782,883	38,257,548	22,782,883
Loans receivable	1,387,898	1,514,333	1,387,898	1,514,333
Current income tax receivable	249,234	2,348,749	249,234	2,348,749
Deferred income tax assets	2,573,107	507,700	2,573,107	507,700
Financial assets				
FVTPL	218,024,620	238,737,880	218,024,620	238,737,880
Available-for-sale	28,980,000	24,460,030	28,980,000	24,460,030
Held-to-maturity	15,276,078	13,773,931	15,276,078	13,773,931
Investment properties	54,640,890	45,285,355	54,640,890	45,285,355
Property and equipment	570,566	709,192	570,566	709,192
Other assets	6,880,914	3,790,073	6,880,914	3,790,073
	366,840,855	353,910,126	366,840,855	353,910,126
Liabilities				
Deferred income tax liabilities	1,498,366	3,093,067	1,498,366	3,093,067
Employee provisions	634,010	816,041	634,010	816,041
Other liabilities	2,148,127	2,008,048	2,148,127	2,008,048
	4,280,503	5,917,156	4,280,503	5,917,156
Net	362,560,352	347,992,970	362,560,352	347,992,970

24.7.1 Cash and cash equivalents

Cash and due from other banks includes inter-bank placements and items in the course of collection. The fair values of floating rate placements and overnight deposits equal their carrying amounts.

24.7.2 Loans and advances to customers

Loan and advances are net of allowance for losses.

24.7.3 Investment securities

In 2009, investment securities include financial assets at FVTPL, available-for-sale and held-to-maturity which are now measured at fair value based on a market prices or broker/dealer price quotations.

24.8 Credit risk

The Fund takes exposure on credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Impairment provisions are provided for losses that have been incurred by the balance sheet date, if any.

The Fund manages this risk by asset allocation over or below the preferred (neutral) position and the investment manager can take an aggressive or conservative position depending on the economic circumstances prevailing at the time. The asset allocation at balance date is as follows:

	2011		2010	
	K	%	K	%
Assets				
Cash and cash equivalents	38,257,548	10.73%	22,782,883	6.57%
Loans to members and others	1,387,898	0.39%	1,514,333	0.44%
Financial assets				
FVTPL	218,024,620	61.15%	238,737,880	68.92%
Available –for-sale	28,980,000	8.13%	24,460,030	7.06%
Held-to-maturity	15,276,078	4.28%	13,773,931	3.98%
Investment properties	54,640,890	15.32%	45,285,355	13.07%
	356,567,034	100%	346,554,412	100%

The assets allocation range defines the high and low extremes within which each assets class may move in response to changing economic conditions. By approving an asset allocation range, the Trustees still maintain ultimate control over investment policy at the micro level while the Investment Manager is given the flexibility needed at operational level to quickly respond to and take advantage of changing economic circumstances without the need to continuously revert back to the Trustees for approval.

The Investment Manager shall evaluate investment proposals to ensure viability and consistency with the approved investment strategy and prudential standards issued by Bank of Papua New Guinea.

24.9 Equity price sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to equity price risks at the end of the reporting period.

If the equity price had been higher/lower, the net surplus for the year ended 31 December 2011 would increase/decrease by K3.3 million as a result in the changes in fair market value of listed shares classified as at FVTPL.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2011

25. Detailed Listing of Financial assets held by the Fund

25.1 Listed shares

Companies	Market Price K	Units	Market Value Kina	31st December 2011 Shareholding as a % of net assets of the Fund	Market Value Kina	31st December 2010 Shareholding as a % of net assets of the Fund
Bank South Pacific	7.53	15,018,285	113,087,683	30.65%	120,934,190	38.18%
Oil Search	13.50	1,435,000	19,379,322	5.35%	42,512,438	12.01%
Kina Asset Management Ltd	0.94	7,380,000	6,937,200	1.88%	7,380,000	2.09%
Credit Corporation	1.98	2,694,629	5,335,365	1.45%	4,850,332	1.37%
New Britain Palm Oil	25.00	363,679	9,091,975	2.46%	9,128,343	2.58%
BHP Billiton Ltd	74.37	43,000	3,198,055	0.87%	3,612,774	0.91%
Highlands Pacific	0.40	2,804,737	1,121,895	0.30%	3,209,679	0.36%
Telstra 3 <T3>	7.20	170,000	1,223,207	0.33%	1,262,275	0.53%
ANZ Banking	44.36	30,000	1,330,812	0.36%	1,864,271	0.43%
Telstra Corporation	7.20	204,000	1,467,848	0.40%	1,514,731	0.43%
Commonwealth Bank of Australia	106.35	21,405	2,276,478	0.62%	1,351,164	0.38%
Multiplex Sites Trust	159.90	2,500	399,740	0.00%	519,029	0.15%
Southern Cross Media Group	-	-	-	0.00%	415,170	0.12%
Mahogany Capital Ltd	-	-	-	0.00%	399,202	0.11%
Alpha Collateralised Debt Obligation	-	-	-	0.00%	345,975	0.10%
Marengo Mining Ltd	0.46	71,112	33,036	0.01%	75,701	0.02%
Macquarie Atlas Roads	-	-	-	0.00%	48,543	0.01
Newcast Mining Ltd	63.96	73,000	4,668,949	1.27%	4,029,110	1.14
			169,551,565			203,452,927

25.2 Unlisted shares

BPT(PNG) Ltd	32.43	98,670	3,199,868	0.87%	2,612,782	0.74%
Arnott's Biscuit	109.80	225,000	24,705,000	6.70%	18,009,000	5.09%
Post Courier	6.79	110,900	753,011	0.20%	818,442	0.23%
South Pacific Brewery	32.65	566,668	18,501,710	5.01%	12,245,695	3.46%
Pacific Balanced Fund (ICPNG)	5.60	56,497	316,383	0.08%	316,383	0.09%
ABN AMRO Social Infrastructure	1.99	500,000	997,083	0.27%	914,218	0.26%
AMP Capital China	1.75	-	-	0.00%	368,432	0.10%
Financial assets at FVTPL			48,473,055		35,284,953	
Hunter		70	28,980,000	7.85%	24,460,030	6.91%
AFS financial assets			28,980,000		24,460,030	

26. List of Investment Securities held-to-maturity (Government – Inscribed Stock)

Serial Number	Settlement Date	Maturity Date	Coupon Rate	Face Value 31/12/2011 K	Face Value 31/12/2010 K
S15112016(G26)	17/11/2006	15/11/2016	9.00%	4,20,4238	4,246,095
S15112021(G27)	17/11/2006	15/11/2021	12.00%	3,304,945	3,335,803
S15112021(G25)	15/12/2006	15/11/2021	12.00%	1,006,424	1,007,074
S15112016(G28)	12/01/2007	15/11/2016	9.00%	1,007,037	1,008,480
S15112023 (G37)	11/04/2008	15/11/2023	12.00%	2,186,299	2,201,978
S15112023 (G38)	16/05/2008	15/11/2023	12.00%	1,062,632	1,067,903
S15112018 (G39)	16/05/2008	15/11/2018	9.00%	336,001	336,437
S15112017 (G41)	23/09/2011	15/02/2017	9.00%	2,168,501	570,161
TOTAL INSCRIBED STOCK				15,276,078	13,773,931

27. Audit Fees

The auditor is Deloitte Touche Tohmatsu. The audit fees paid for the audit of the financial statements are disclosed in note 10.2.

28. Subsequent events

There are no matters that have arisen since the end of the financial year, that have significantly affected, or may significantly affect, the operations of the Fund, the results of those operations, or the state of affairs of the Fund in future years

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Richard Sinamoi – Chief Executive Officer
Danny Herepe - Executive Manager Finance and Administration







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